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The Business Tax.

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What is it ?

And what is the occasion which has given rise to it ?

These questions naturally suggest themselves to the readers of THE JOURNAL who have been following the proceedings of the City Council during the past few weeks. Naturally, we say, because any change in our system of municipal taxation, so sweeping as that proposed, should be sustained by very strong reasons to justify its agitation.

Some three or four weeks ago the desirability of adopting a "business tax" was brought up in the council by Ald. Henderson, and on motion was referred to the finance committee for consideration. The committee reported at the meeting held on the 12th instant, recommending that the system be adopted in Ottawa and stating briefly the reasons which had influenced them in coming to this decision. On account, however, of some of the members of the council not being prepared—in view of the novelty of the subject—to pronounce upon it intelligently, the report was withdrawn for the present, but will most probably be re-introduced at an early date. In view of this position of the matter, we propose briefly to reply to the questions propounded and shall deal with the second one first, viz., "What is the occasion which has given rise to the proposed tax ?"

THE OCCASION.

I. Briefly speaking, it springs from the present unsatisfactory condition of the law relating to the taxation of personal property and income. That taxation in some shape or form is inevitable and that all benefitting by the expenditure of public moneys have a right to bear their fair proportion of its burdens, are principles admitted by all. The principles are sound, but their practical application from an equitable point of view is not so simple, as we know of no country in which the question has been satisfactorily settled, or in which great conflicts of

opinion on the subject do not exist. In Great Britain, municipal taxation is levied on real property alone. The taxation of personal property has no existence there, and the income tax exists only for state purposes. This was not always the case. For some centuries the national revenue was raised entirely by a tax on personalty, but as the values of such property increased, as the nation became more wealthy, the system gradually became impracticable, until at length it was abandoned entirely, and now such a tax, either for national or municipal purposes, is unknown.

In the United States and in Canada we follow a different system, and instead of being content to learn from the experience of the mother country, we are endeavoring to solve the problem of, "how best to levy municipal taxation," for ourselves. The result would seem to be, as admitted by all who have given careful attention to the subject, that no other conclusion can be come to but that arrived at by Great Britain years ago, that any system of taxation of personal property is impracticable. Impracticable because the property cannot be reached, and because the attempt to reach it gives rise to a system of fraud and deceit which is appalling to think of. The report of the municipal commission of Ontario does not exaggerate when it states

"That the total amount which personal property and income contribute to the expenditure of a city does not compensate for the enormous amount of falsehood and misrepresentation to which the taxation of that kind of property gives occasion."

The testimony is similar in any country in which this tax exists and so totally inadequate is the value reached, in comparison with what should be obtained, that the best authorities on this subject, both in Canada and the United States, advise its entire abolition.

It is believed that in cities the value of all personal property at least equals the value of the real estate. In Great Britain it is said to be twice as great and yet how is this borne out by our assessments? In New York the assessed value of personal property is less than one-fifth of that of the real estate. In Toronto, Hamilton and Halifax the disproportion is about the same, while in Kingston and Ottawa it is very much greater, being nearly ten to one. In St. John, N.B., alone, is the peculiar spectacle presented of the assessed value of the personal prop-

erty and income being greater than that of real estate. In view of these facts is it to be wondered at that all authorities on this subject should write as they do? Is it to be wondered that Henry George writes as follows :

"Taxes on the products of labor, taxes which take the earnings of industry and the savings of thrift away have begotten and always must beget fraud, corruption and evasion. All the penalties of the law—imprisonments, fines, tortures and death—have failed to secure their honest and equal collection. They are unjust and unequal in their very nature, always falling on the poor with greater severity than on the rich. Their collection always entails great waste and cost, increases the number of office-holders and the complexity of government, and compels interference with individual affairs; always checks production, lessens general wealth, and takes from labor and capital their due reward—the stimulus to productive exertion. Men naturally evade and resist them, and with the sanction of the moral sense even where their duller intellectual faculties are convinced that such taxes are right and beneficial in themselves. There may be protectionists who will not smuggle or undervalue when they get a chance, but I have never met them. There may be rich men who make a true return of their wealth for taxation, but they are very few."

Mr. David A. Wells in a report to the New York Legislature says :

Oaths as a matter of restraint or as a guarantee of truth in respect to official statements, have in great measure ceased to be effectual; or in other words perjury, direct or constructive, has become so common as to almost cease to occasion notice".

His opinion also agrees with that of Mr. George when he states "that the richer a man is, the smaller in proportion to his property is the contribution he pays to the state." On the other hand, with respect to the income tax, it cannot be questioned that persons having fixed incomes and employees of large establishments, are generally assessed to the limit of their means allowed by law, while frequently the very employers from whom they receive their income, and professional men who earn and spend five or ten times amach, pay little or nothing.

We might go on quoting, did space permit, many other authorities, all to the same effect, but have, we think, said sufficient to prove our assertion, that the system of personal property taxation is, to say the least, utterly impracticable and should be wiped out of our statute book with as little delay as possible. To quote one more authority. Prof. Ely says :

"Although our system of taxation is in the face of it fair and simple, it is found in practice to be an unpracticable theory, for a large portion of property escapes taxation, and that the property of those best able to bear

the burdens of government, namely, the wealthy residents of cities. . . . it is impossible to find this property, and to force men to make returns under oath results invariably in perjury and demoralization without discovery of property." And again the same authority writes: "The tax never has worked well in any modern community or state in the entire civilized world, though it has been tried thousands of times and although the mental resources of able men have been employed to make it work well".

As a remedy for this state of things Prof. Ely advises that the entire system of taxation of invisible property be abandoned and in its stead a business tax based upon property values be imposed.

THE TAX.

II. This brings us to our first question, namely, "What is a business tax?"—which we will now endeavor to answer. It is not an experiment, having been in existence for years both in Montreal and Quebec and having been found to work most satisfactorily.

In Montreal the tax is $7\frac{1}{2}$ per cent, on the annual rental, and there is no such thing as assessment of merchandise or intangible property or income in any shape. "It is levied upon all hotel or tavern-keepers, brewers, distillers, merchants, traders, manufacturers, banks, bankers, brokers, or money lenders, auctioneers, grocers, bakers, butchers, railway, telephone, telegraph, insurance, steamship companies, managers of theatres; or generally in all trades, manufactures, arts, occupations, and professions. Banks pay a specific amount according to paid up capital. The tax on gas companies, insurance, telegraph and telephone, is also specific. So also with regard to the street railway, which pays a tax of \$12,000. On hotels it is also specific, upon a graduated scale according to the rental of the premises. As stated, the system is found both in Montreal and Quebec to work most satisfactorily and we understand that real estate owners make no complaint against it, because they realize that it assists the business of the city and thereby enhances the value of their property.

With the experience of these cities before us there can be no reason to doubt that it would prove equally efficacious in Ottawa. The law bearing on this subject was passed at the last session of the Provincial legislature, acting on the strong recommendation of the municipal convention held in Toronto in November, 1889. It came into operation on the first of the present month as a permissive measure, which any municipality may accept by passing a by-law to that effect. Its provi-

sions are very simple but as the law at present stands are only applicable to persons carrying on a mercantile business. It gives power to the council of the municipality to substitute in place of the present personal property tax, a business tax in lieu thereof. Such business tax being levied on the annual value of the premises in which the business is carried on, at a rate not to exceed $7\frac{1}{2}$ per cent. on such annual value. It also provides for the manner in which the annual value is to be arrived at, namely, by taking the assessed value of the premises and charging the same with 7 per cent. Thus, supposing the council has decided to impose 5 per cent. as a tax to be levied in Ottawa. Given the assessed value of the premises, say \$1,000, multiplied by seven equals \$70, which must be accepted as the annual value. The tax being 5 per cent., $\$70 \times 5$ equals \$3.50, which would be the annual business tax on all premises assessed at \$1,000. On premises assessed at \$5,000, the tax would be in the same ratio, namely, five times \$3.50 or equal \$17.50, and so on according to valuation.

The above appears to us to be a very fair way in which to obviate the difficulties insuperable to the present system and is certainly well worthy of a trial. Indeed the present system is so utterly and radically unsatisfactory that we can hardly conceive of any alteration which would not be for the better and we sincerely trust that when this matter again comes before the council, it will decide to put a new law into operation at as early a date as possible.

There are several reasons which suggest themselves as valid grounds on which to adopt the new system.

- 1st. It will greatly simplify the work of the assessors.
- 2nd. It will put an end to the inquisitorial inquiries which under the existing law they are compelled to make.
- 3rd. It will distribute the burden of taxation much more equitably than is or can be done at present and on account of its wide distribution it will fall so lightly in its operations as to be very slightly felt.
- 4th. It is a step in the direct abolition of the taxes upon the products of labor and thrift and placing them upon the basis of land values, upon which alone in our opinion taxes should be imposed.

To our mind the drift of public opinion is rapidly tending in this direction, and the single tax theory of Henry George particularly, in relation to municipal taxation has much to commend it. We conceive that no one can with justice controvert the truths expressed by him in a recent publication, as follows :

Taxes on income are unjust in nature and cannot be collected fairly. Taxes on bequests and inheritances are also unjust in nature, and would soon be evaded when large amounts were involved. But the tax on land values has pre-eminently the element of justice. It takes from the individual not in proportion to his needs or to his energy, industry or thrift, but in proportion to the value of the special privilege he enjoys. It can be collected with a maximum of ease and certainty and with the minimum of cost. Land lies out of doors. It cannot be hid or carried off. Its value is always more definitely known than other value, and a little sign on every lot stating size, owner, and assessed value, would enable public opinion to check the assessment.

Let us have the business tax and we trust that before long the legislature will see its ways clear to extend its operation to such an extent as will enable all other classes to benefit by it instead of being confined as at present to the mercantile community alone.

APPENDIX.

REPORT OF THE SUB-COMMITTEE OF FINANCE TO THE FINANCE COMMITTEE OF THE OTTAWA CITY COUNCIL.

GENTLEMEN,—Your Committee appointed to consider the question of introduction of a business tax, upon persons carrying on a mercantile business in the Municipality, under the provisions of the amended Municipal Act of 1890, in substitution for the ordinary tax upon personal property, beg to report that they have given the subject careful consideration and have also advised with the Assessment Commissioner, Mr. Pratt, and the Honorable Mr. Bronson.

Your Committee are unanimously of opinion that the introduction of such a tax is highly desirable for the following amongst other reasons :

1. It will greatly simplify the work of the assessors.
2. It will do away with the personal property tax on the mercantile community, which is so objectionable on account of its inquisitorial character and the impossibility of applying it equitably.
3. It will distribute the burden of taxation over a large number who are not now reached ; relieve many unduly burdened and generally prove a more equitable system than exists under the operation of the present law.

At the same time your Committee are of opinion, that the Act as it at present stands is capable of improvement in so far as it is limited in its operation to the mercantile classes. They are of opinion that it would be

advantageously improved by making it more comprehensive, so as to include other classes besides the one specified, such as the "Arts," "Professions," &c.

To accomplish this, however, would require an amendment by the Legislature and to secure this your Committee would recommend that a conference of representatives of the cities of Ontario be invited to consider and discuss the matter. Such a conference could be readily procured during the next session of the Local Legislature and your Committee have no doubt that any conclusions arrived at and recommendations made by them would receive favorable attention from that body.

Meantime your Committee would recommend that the Act be accepted for the present as far as it goes and that a By-law be at once introduced for the purpose of giving effect to its provisions.

JOHN HENDERSON, *Chairman*,
A. MACLEAN,
JAMES GORDON.

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